

Message Text

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ACTION TRSE-00

INFO OCT-01 EA-07 ISO-00 NEA-10 IO-13 AID-05 CIAE-00
COME-00 EB-08 FRB-03 INR-07 NSAE-00 USIA-06 XMB-02
OPIC-03 SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05
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USADB

FOR NAC AGENCIES - PASS TREASURY FOR ZINMAN

E.O. 11652: ADS, DECLAS 2/22/78

TAGS: EAID, EFIN

SUBJECT: REVIEW OF ADB FINANCIAL POLICIES

REF: MANILA 1596

1. ON FEBRUARY 17-18, ADB BOARD OF DIRECTORS MET BOTH MORNING AND AFTERNOON FOR COMPREHENSIVE REVIEW OF ADB WORKING PAPER 1-77 ON ABOVE SUBJECT. THROUGHOUT DISCUSSIONS THERE WERE REPEATED COMMENTS BY NUMEROUS DIRECTORS THAT BANK SHOULD FORMULATE ITS OWN CRITERIA FOR ESTABLISHMENT FINANCIAL POLICIES AND NOT NOT BE OBLIGED TO ADOPT THOSE OF WORLD BANK OR IDB. AT SAME TIME, DIRECTORS RECOGNIZED THAT ADB'S FINANCIAL OBJECTIVES AND CAPITAL STRUCTURE COULD NOT DIFFER SUBSTANTIALLY FROM THOSE OF THESE OTHER DEVELOPMENT INSTITUTIONS IN VIEW THEIR MUTUAL DEPENDENCE ON PRIVATE CAPITAL MARKETS FOR FUNDS.

2. DURING DISCUSSIONS, WHILE NOTING HE HAD RECEIVED
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NO OFFICIAL INSTRUCTIONS, U.S. DIRECTOR STRESSED NEED TO LENGTHEN AVERAGE MATURITY OF BANK'S FUNDED DEBT AND DESIRABILITY OF OBTAINING HIGH RETURN ON EQUITY IN ORDER TO REDUCE OR ELIMINATE DEPENDENCE ON PAID-IN CAPITAL IN FUTURE CAPITAL REPLENISHMENTS. HE ALSO URGED THAT COMMITMENT CHARGE BE RAISED.

3. AFTER EXTENSIVE COMMENT HAD BEEN MADE ON VARIOUS ASPECTS DISCUSSED IN WORKING PAPER, THERE APPEARED TO BE GENERAL AGREEMENT ON CONCLUSIONS AND RECOMMENDATIONS IN PARA. 118(A) THOUGH (G) OF WORKING PAPER 1-77.

4. RE SUB-SECTION (H) ON QUESTION OF WHETHER THERE SHOULD BE DIFFERENTIAL IN LENDING TERMS FOR HONG KONG AND SINGAPORE, ONLY SUPPORT FOR ABOLISHING DIFFERENTIAL CAME FROM DIRECTORS REPRESENTING ABOVE TWO COUNTRIES PLUS PHILIPPINES. (LATTER'S SUPPORT WAS BASED ON SINGAPORE'S MEMBERSHIP IN ASEAN.) CANADIAN DIRECTOR SAID HE WAS PREPARED TO SUPPORT SHIFT FROM PENALTY RATE TO MATURITY DIFFERENTIAL AS LONG AS GRANT ELEMENT WOULD NOT BE IMPROVED. (HOWEVER, THIS WOULD REQUIRE SUCH LOANS TO BE MADE AT SIX YEARS WITH TWO YEARS GRACE PERIOD OR SEVEN YEARS WITH ONE YEAR GRACE.) BANGLADESH DIRECTOR SUGGESTED THAT THEN YEAR MATURITY WITH THREE YEAR GRACE MIGHT BE REASONABLE COMPROMISE. AUSTRALIAN DIRECTOR SAID HE WOULD HAVE TO CONSULT HONG KONG AUTHORITIES AND WAS NOT SURE THEY WOULD WISH TO MOVE FROM PENALTY RATE TO MATURITY DIFFERENTIAL UNDER THESE CONDITIONS. NEVERTHELESS, THERE IS NOW GOOD POSSIBILITY DIRECTORS MAY DECIDE TO MOVE TOMATURITY DIFFERENTIAL OF TEN YEARS WITH THREE YEARS GRACE PERIOD WHETHER OR NOT HONG KONG AGREES. ALTHOUGH JAPANESE DIRECTOR HAD NO INSTRUCTIONS, HE SAID HE PERSONALLY COLD SUPPORT MATURITY DIFFEEEENTIAL. ALSO, BOARD MAY DECIDE NOT REPEAT NOT TO APPLY ANY NEW POLICY TO PROPOSED SHA TIN URBAN DEVELOPMENT PROJECT FOR HONG KONG.
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5. ON PARA. 118(I), ONLY U.S. AND AUSTRALIAN DIRECTORS ASKED FOR INCREASE IN COMMITMENT CHARGE. THUS, IT IS CLEAR THATBOARD WILL SUPPORT MANAGEMENT PROPOSAL TO CONTINUE 0.45 PERCENT PER ANNUM COMMITMENT CHARGE FOR TIME BEING, ESPECIALLY SINCE SUBJECT HAD BEEN CONSIDERED AS RECENTLY AS LAST JULY.

6. RECOMMENDATIONS IN SUB-SECTIONS (J), (K) AND (1) OF PARA. 118 ON VARIOUS ASPECTS OF BANK'S LENDING RATE ELICITED EXTENSIVE DISCUSSION. WHILE SEVERAL DIRECTORS QUESTIONED METHOD OF CALCULATING INTEREST RATE, THERE WAS NO (REPEAT NO) OPPOSITION TO FIXING LENDING RATE AT 8.70 PERCENT. MOST OF DISCUSSION WAS FOCUSED ON TYPE OF IMPORTANT DEVELOPMENTS WHICH WOULD CALL FOR REVIEW OF LENDING RATE OTHER THAN AT BEGINNING OF EVERY YEAR, BUT MANAGEMENT WAS NOT PREPARED TO BE MORE PRECISE. U.S. AND AUSTRALIAN DIRECTORS ALONE URGED REVIEW MORE FREQUENTLY THAN ON ANNUAL BASIS, BUT

OBTAINED NO SUPPORT.

7. AT CONCLUSION OF DISCUSSIONS, ADB PRESIDENT ASKED THOSE DIRECTORS REPRESENTING COUNTRIES WHOSE OFFICIAL VIEWS HAD NOT BEEN RECEIVED (NAMELY, UNITED STATES AND JAPAN) TO SEEK TO OBTAIN SUCH VIEWS AND PRESENT THEM ORALLY OR IN WRITING TO MANAGEMENT ASAP. THIS REQUEST WAS MADE TO PERMIT MANAGEMENT TO PREPARE SHORT FORMAL PAPER WITH SPECIFIC PROPOSALS FOR FINAL BOARD DECISION ON MARCH 3.

8. IN USADB VIEW, SUPPORT FOR PROPOSALS AS OUTLINED ABOVE IS STRONG ENOUGH, AND IS LIKELY TO BE FURTHER SUPPORTED BY JAPAN, SO THAT IT APPEARS UNLIKELY THAT ANY FURTHER SUBSTANTIVE MODIFICATIONS ARE FEASIBLE AT THIS TIME. IF THERE ARE STRONG VIEWS, IT IS ESSENTIAL THAT THEY BE COMMUNICATED TO PRESIDENT IMMEDIATELY BEFORE LIMITED OFFICIAL USE

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MANAGEMENT FINALIZES PAPER THIS WEEK.
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Message Attributes

Automatic Decaptioning: X
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Disposition Date: 22 May 2009
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Disposition History: n/a
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